

## Message Text

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TAGS: EFIN, ETRN, BF, US

SUBJECT: U.S. TAX LAW ON FOREIGN CONVENTION DEDUCTIONS

REF: NASSAU 0310, '76 STATE 231534

1. SUMMARY: AMBASSADOR JOHNSON HAS PRESENTED DIPLOMATIC NOTE ON CONVENTION DEDUCTION ISSUE. BAHAMAS WOULD HAVE TO DOCUMENT THAT IMPACT OF 1976 AMENDMENTS IS MORE RESTRICTIVE THAN INTENDED BY CONGRESS TO GET CONGRESS TO RECONSIDER THE PRESENT LAW. DEPARTMENT DOES NOT PLAN TO SUPPORT EITHER BAHAMIAN OR NORTH AMERICAN EXEMPTION. WE WOULD FAVOR REPEAL OF 1976 AMENDMENTS BUT JUDGE CHANCE OF REPEAL TO BE VERY SMALL. END SUMMARY.

2. AMBASSADOR JOHNSON DELIVERED DIPLOMATIC NOTE MARCH 28 POINTING OUT THE IMPACT ON BAHAMIAN ECONOMY OF THE 1976 TAX LAW AMENDMENTS WHICH LIMIT DEDUCTIONS FOR EXPENSES AT LIMITED OFFICIAL USE

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FOREIGN CONVENTIONS. BAHAMIAN NOTE STATES 75 TO 85 PERCENT OF TOURISTS VISITING BAHAMAS ARE FROM U.S. AND 25 TO 30 PERCENT OF THESE ARE CONVENTION TRAVELERS. NOTE CONTENTS, WITHOUT SUPPORTING DOCUMENTATION OR DETAIL, THAT AS OF END OF FEBRUARY BAHAMAS HAS LOST 19 "CONVENTION GROUPS" WORTH DOLS 20 MILLION AND EXPECTS TO LOSE TOTAL OF DOLS 60 MILLION THIS YEAR.

3. DIPLOMATIC NOTE FURTHER POINTS OUT THAT SENATOR GOLDWATER HAS INTRODUCED A BILL TO REPEAL THE 1976 AMENDMENTS. NOTE URGES FAVORABLE CONSIDERATION OF THIS AMENDMENT OR ANY OTHER CHANGE WHICH WOULD EXCLUDE BAHAMAS FROM LIMITATIONS CONTAINED IN PRESENT U.S. LAW. GOLDWATER'S BILL WAS DISCUSSED BY SENATE FINANCE COMMITTEE DURING CONSIDERATION OF ADMINISTRATION TAX STIMULUS BILL. SEVERAL OTHER MODIFICATIONS OF 1976 TAX REFORM ACT WERE ALSO DISCUSSED. GOLDWATER PROPOSAL WAS NOT INCLUDED IN BILL REPORTED OUT OF COMMITTEE MARCH 28. ACCORDING TO A STAFF AIDE TO GOLDWATER THE SENATOR MAY RESUBMIT HIS PROPOSAL AS A FLOOR AMENDMENT DURING DEBATE WHICH EXPECTED TO BEGIN APRIL 18.

4. GOLDWATER PROPOSAL HAS ONLY SLIGHT CHANCE OF PASSAGE. MANY MEMBERS OF CONGRESS VIEW FOREIGN CONVENTIONS AS AN OPEN INVITATION TO TAX FRAUD (DEDUCTING AS A BUSINESS EXPENSE WHAT IS REALLY A VACATION). BY LIMITING DEDUCTION TO TWO FOREIGN CONVENTIONS PER YEAR, CONGRESS EXPECTED TO PERMIT MOST LEGITIMATE CONVENTION TRAVEL WHILE ELIMINATING THE POSSIBILITY OF EXTENSIVE TAX FRAUD. TO GET CONGRESS TO RECONSIDER THIS POSITION, BAHAMAS (AND OTHER COUNTRIES) WOULD HAVE TO SHOW THAT THE IMPACT OF THE 1976 AMENDMENTS IS MORE RESTRICTIVE THAN INTENDED BY CONGRESS. THIS IS POSSIBLE IF U.S. CONVENTION ORGANIZERS, WISHING TO MAXIMIZE ATTENDANCE, ARE AVOIDING FOREIGN CONVENTION SITES IN ORDER NOT TO DISCOURAGE FROM ATTENDING THOSE FEW INDIVIDUALS WHO MIGHT PARTICIPATE IN MORE THAN TWO FOREIGN CONVENTIONS PER YEAR. IF THIS IS HAPPENING, THE BAHAMIANS WILL HAVE TO DOCUMENT THEIR CASE AND PRESENT EVIDENCE TO CONGRESS.

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THEY WILL HAVE TO LIST CONVENTIONS WHICH HAVE BEEN CANCELLED AND SUPPLY PROOF THAT THE CANCELLATIONS WERE DUE TO THE AMENDMENTS TO THE TAX CODE. THEY WILL HAVE TO CITE WHICH ASPECTS OF PRESENT U.S. LAW HAVE CAUSED PROBLEMS, E.G., TWO CONVENTION LIMIT, LIMIT ON PER DIEM EXPENSES, DOCUMENTATION REQUIREMENTS.

5. THERE WAS CONSIDERABLE SENTIMENT IN CONGRESS LAST FALL TO ADOPT PROVISIONS WHICH WOULD HAVE NOT ALLOWED TAX DEDUCTIONS FOR ANY FOREIGN CONVENTIONS. AS POST IS AWARE, THERE WAS ALSO SOME SUPPORT FOR A NORTH AMERICAN EXEMPTION TO THE OTHERWISE GENERAL BAN ON FOREIGN CONVENTION DEDUCTIONS. DEPARTMENT OPPOSED BOTH THESE PROPOSALS. WE FELT THAT THERE SHOULD BE NO DISCRIMINATION BETWEEN U.S. AND FOREIGN CONVENTION SITES, BUT WHEN IT BECAME APPARENT THAT CONGRESS WOULD INSIST ON SOME FORM OF LIMITATIONS ON FOREIGN CONVENTION DEDUCTIONS, WE OPPOSED THE GENERAL BAN WITH A NORTH AMERICAN EXEMPTION. WE FELT THAT DISCRIMINATION BETWEEN VARIOUS FOREIGN COUNTRIES WAS UNJUSTIFIED.

6. THE FINAL VERSION OF THE BILL WHICH PERMITS DEDUCTIONS FOR TWO FOREIGN CONVENTIONS PER YEAR WAS CONSIDERED A PARTIAL VICTORY FOR THOSE (INCLUDING THE DEPARTMENT) WHO WANTED LIBERAL DEDUCTION RULES FOR FOREIGN CONVENTIONS. BECAUSE STRONG SENTIMENT STILL EXISTS IN CONGRESS FOR DISALLOWING ANY DEDUCTIONS FOR FOREIGN CONVENTIONS, AN ATTEMPT TO MODIFY THE 1976 CHANGES COULD RESULT IN FURTHER RESTRICTIONS. WE ARE THEREFORE RELUCTANT TO SEEK CONGRESSIONAL RECONSIDERATION.

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